

SANTA MONICA COMMUNITY COLLEGE DISTRICT

Revised Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

Education Code Section 76300 and California Code of Regulations,
Title 5, sections 58501-58503, 58611-58613, 58620, and 58630

July 1, 1998, through June 30, 2006



JOHN CHIANG
California State Controller

October 2012



JOHN CHIANG
California State Controller

October 4, 2012

Margaret Quiñones-Perez, Ed.D., Chair
Board of Trustees
Santa Monica Community College District
1900 Pico Boulevard
Santa Monica, CA 90405

Dear Dr. Quiñones-Perez:

The State Controller's Office audited the costs claimed by Santa Monica Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code section 76300 and California Code of Regulations, Title 5, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2006.

This revised final report supersedes our previous reports dated April 29, 2011, and September 7, 2012. We revised the penalty for filing a late claim for fiscal year (FY) 1998-99 through FY 2004-05 from 10% of claimed costs to 10% of allowable costs. We also corrected a mathematical error in the first revised report. As a result, the total penalty decreased by \$350,797, from \$894,506 to \$543,709.

The district claimed \$9,323,151 (\$10,226,657 less \$903,506 in late filing penalty) for the mandated program. Our audit disclosed that \$5,891,148 is allowable (\$6,434,857 less \$543,709 in late filing penalty) and \$3,432,003 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported salaries and benefits, overstated indirect costs, and understated offsetting savings/reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,891,148, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD

Chief, Division of Audits

JVB/bf

cc: Chui L. Tsang, Ph.D., Superintendent/President
Santa Monica Community College District
Randall Lawson, Vice President, Administrative Services
Santa Monica Community College District
Christopher Bonvenuto, Director, Fiscal Services
Santa Monica Community College District
Christine Atalig, Auditor
Fiscal Services Unit
California Community Colleges Chancellor's Office
Thomas Todd, Assistant Program Budget Manager
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Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Santa Monica Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code section 76300 and California Code of Regulations, Title 5, sections 58501-58503, 58611-58613, 58620, and 58630) for the period of July 1, 1998, through June 30, 2008.

The district claimed \$9,323,151 (\$10,226,657 less \$903,506 in late filing penalty) for the mandated program. Our audit disclosed that \$5,891,148 is allowable (\$6,434,857 less \$543,709 in late filing penalty) and \$3,432,003 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported salaries and benefits, overstated indirect costs, and understated offsetting savings/reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,891,148, contingent upon available appropriations.

Background

Education Code section 76300 and *California Code of Regulations*, Title 5, sections 58501-58503, 58611-58613, 58620, and 58630 require community college districts to perform specific activities related to collecting enrollment fees and granting fee waivers, Board of Governor's (BOG) Grants, and financial assistance to students.

The sections were added and/or amended by:

- Chapter 1, Statutes of 1984
- Chapters 274 and 1401, Statutes of 1984
- Chapters 920 and 1454, Statutes of 1985
- Chapters 46 and 395, Statutes of 1986
- Chapter 1118, Statutes of 1987
- Chapter 136, Statutes of 1989
- Chapter 114, Statutes of 1991
- Chapter 703, Statutes of 1992
- Chapters 8, 66, 67, and 1124, Statutes of 1993
- Chapters 153 and 422, Statutes of 1994
- Chapter 308, Statutes of 1995
- Chapter 63, Statutes of 1996
- Chapter 72, Statutes of 1999

On April 24, 2003, the Commission on State Mandates (CSM) adopted the statement of decision for the Enrollment Fee Collection and Waivers Program. The CSM found that the test claim legislation constitutes a new program or higher level of service and imposes a reimbursable state-mandated program on community college districts within the meaning of Article XIII B, section 6 of the California Constitution and Government Code section 17514.

The CSM found that the following activities are reimbursable:

- Calculating and collecting the student enrollment fee for each student enrolled, except for nonresidents and special part-time students cited in section 76300, subdivision (f).
- Waiving student fees in accordance with the groups listed in Education Code section 76300, subdivisions (g) and (h).
- Waiving fees for students who apply for and are eligible for BOG fee waivers.
- Adopting procedures that will document all financial assistance provided on behalf of students pursuant to Chapter 9 of Title 5 of the California Code of Regulations; and including in the procedures the rules for retention of support documentation which will enable an independent determination regarding accuracy of the district's certification of need for financial assistance.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Enrollment Fee Collection and Waivers Program for the period of July 1, 1998, through June 30, 2006.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. Except for the issue noted below, we conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Santa Monica Community College District claimed \$9,323,151 (\$10,226,657 less \$903,506 in late filing penalty) for costs of the Enrollment Fee Collection and Waivers Program. Our audit disclosed that \$5,891,148 is allowable (\$6,434,857 less \$543,709 in late filing penalty) and \$3,432,003 is unallowable.

The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,891,148, contingent upon available appropriations.

**Views of
Responsible
Officials**

We e-mailed the draft report to Christopher Bonvenuto, Director of Fiscal Services, on April 27, 2011. Robert G. Isomoto, Vice President/Administration, responded by letter the same day, indicating that at that time, the district did not have a response to the audit findings presented.

We issued a final audit report on April 29, 2011. Subsequently, we revised the penalty for filing a late claim for FY 1998-99 through FY 2004-05 from 10% of claimed costs to 10% of allowable costs. We advised Mr. Bonvenuto of the revision on August 17, 2012, and issued the revised report on September 7, 2012. This report corrects a mathematical error in the first revised report. As a result, the total penalty decreased by \$350,797, from \$894,506 to \$543,709.

Restricted Use

This report is solely for the information and use of Santa Monica Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

October 4, 2012

Revised Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 699,227	\$ 448,474	\$ (250,753)	Finding 1
Indirect costs	304,583	87,452	(217,131)	Finding 2
Total direct and indirect costs	1,003,810	535,926	(467,884)	
Less offsetting reimbursements:				
Enrollment fee collections	(34,240)	(89,121)	(54,881)	Finding 3
Total enrollment fee collection costs	<u>\$ 969,570</u>	<u>\$ 446,805</u>	<u>\$ (522,765)</u>	
<i>Enrollment Fee Waivers</i>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 699,227	\$ 448,474	\$ (250,753)	Finding 1
Indirect costs	304,583	87,452	(217,131)	Finding 2
Total direct and indirect costs	1,003,810	535,926	(467,884)	
Less offsetting reimbursements:				
Enrollment fee collections	(34,240)	(89,121)	(54,881)	Finding 3
Subtotal	969,570	446,805	(522,765)	
Less late filing penalty ²	(96,957)	(44,681)	52,276	
Total program costs	<u>\$ 872,613</u>	402,124	<u>\$ (470,489)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 402,124</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 777,038	\$ 485,728	\$ (291,310)	Finding 1
Indirect costs	357,127	90,588	(266,539)	Finding 2
Total direct and indirect costs	1,134,165	576,316	(557,849)	
Less offsetting reimbursements:				
Enrollment fee collections	(37,495)	(61,914)	(24,419)	Finding 3
Total enrollment fee collection costs	<u>\$ 1,096,670</u>	<u>\$ 514,402</u>	<u>\$ (582,268)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 277,505	\$ 270,118	\$ (7,387)	Finding 1
Indirect costs	127,541	50,377	(77,164)	Finding 2
Total direct and indirect costs	405,046	320,495	(84,551)	
Less offsetting reimbursements:				
Enrollment fee waivers	(126,883)	(146,120)	(19,237)	Finding 3
Total enrollment fee waiver costs	<u>\$ 278,163</u>	<u>\$ 174,375</u>	<u>\$ (103,788)</u>	

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000 (continued)</u>				
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	1,054,543	755,846	(298,697)	Finding 1
Indirect costs	484,668	140,965	(343,703)	Finding 2
Total direct and indirect costs	1,539,211	896,811	(642,400)	
Less offsetting reimbursements:				
Enrollment fee collections	(37,495)	(61,914)	(24,419)	Finding 3
Enrollment fee waivers	(126,883)	(146,120)	(19,237)	Finding 3
Subtotal	1,374,833	688,777	(686,056)	
Less late filing penalty ²	(137,483)	(68,878)	68,605	
Total program costs	<u>\$ 1,237,350</u>	619,899	<u>\$ (617,451)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 619,899</u>		
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 851,100	\$ 660,624	\$ (190,476)	Finding 1
Indirect costs	355,079	116,072	(239,007)	Finding 2
Total direct and indirect costs	1,206,179	776,696	(429,483)	
Less offsetting reimbursements:				
Enrollment fee collections	(33,261)	(91,580)	(58,319)	Finding 3
Total program costs	<u>\$ 1,172,918</u>	<u>\$ 685,116</u>	<u>\$ (487,802)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 253,598	\$ 223,519	\$ (30,079)	Finding 1
Indirect costs	105,801	39,272	(66,529)	Finding 2
Total direct and indirect costs	359,399	262,791	(96,608)	
Less offsetting reimbursements:				
Enrollment fee waivers	(154,060)	(154,832)	(772)	Finding 3
Total program costs	<u>\$ 205,339</u>	<u>\$ 107,959</u>	<u>\$ (97,380)</u>	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,104,698	\$ 884,143	\$ (220,555)	Finding 1
Indirect costs	460,880	155,344	(305,536)	Finding 2
Total direct and indirect costs	1,565,578	1,039,487	(526,091)	
Less offsetting reimbursements:				
Enrollment fee collections	(33,261)	(91,580)	(58,319)	Finding 3
Enrollment fee waivers	(154,060)	(154,832)	(772)	Finding 3
Subtotal	1,378,257	793,075	(585,182)	
Less late filing penalty ²	(137,826)	(79,308)	58,518	
Total program costs	<u>\$ 1,240,431</u>	713,767	<u>\$ (526,664)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 713,767</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2001, through June 30, 2002				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 885,737	\$ 701,396	\$ (184,341)	Finding 1
Indirect costs	372,630	133,125	(239,505)	Finding 2
Total direct and indirect costs	1,258,367	834,521	(423,846)	
Less offsetting reimbursements:				
Enrollment fee collections	(27,232)	(95,484)	(68,252)	Finding 3
Total enrollment fee collection costs	<u>\$ 1,231,135</u>	<u>\$ 739,037</u>	<u>\$ (492,098)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 248,810	\$ 212,885	\$ (35,925)	Finding 1
Indirect costs	104,674	40,406	(64,268)	Finding 2
Total direct and indirect costs	353,484	253,291	(100,193)	
Less offsetting reimbursements:				
Enrollment fee waivers	(162,616)	(153,007)	9,609	Finding 3
Total enrollment fee waiver costs	<u>\$ 190,868</u>	<u>\$ 100,284</u>	<u>\$ (90,584)</u>	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,134,547	\$ 914,281	\$ (220,266)	Finding 1
Indirect costs	477,304	173,531	(303,773)	Finding 2
Total direct and indirect costs	1,611,851	1,087,812	(524,039)	
Less offsetting reimbursements:				
Enrollment fee collections	(27,232)	(95,484)	(68,252)	Finding 3
Enrollment fee waivers	(162,616)	(153,007)	9,609	Finding 3
Total program costs	1,422,003	839,321	\$ (582,682)	
Less late filing penalty ²	(142,200)	(83,932)	58,268	
Total program costs	<u>\$ 1,279,803</u>	<u>755,389</u>	<u>\$ (524,414)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 755,389</u>		
July 1, 2002, through June 30, 2003				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 869,573	\$ 632,458	\$ (237,115)	Finding 1
Indirect costs	346,264	115,487	(230,777)	Finding 2
Total direct and indirect costs	1,215,837	747,945	(467,892)	
Less offsetting reimbursements:				
Enrollment fee collections	(29,094)	(94,594)	(65,500)	Finding 3
Total enrollment fee collection costs	<u>\$ 1,186,743</u>	<u>\$ 653,351</u>	<u>\$ (533,392)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 256,776	\$ 353,138	\$ 96,362	Finding 1
Indirect costs	102,248	64,483	(37,765)	Finding 2
Total direct and indirect costs	359,024	417,621	(58,597)	
Less offsetting reimbursements:				
Enrollment fee waivers	(159,365)	(163,114)	(3,749)	Finding 3
Total enrollment fee waiver costs	<u>\$ 199,659</u>	<u>\$ 254,507</u>	<u>\$ (54,848)</u>	

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,126,349	\$ 985,596	\$ (140,753)	Finding 1
Indirect costs	448,512	179,970	(268,542)	Finding 2
Total direct and indirect costs	1,574,861	1,165,566	(409,295)	
Less offsetting reimbursements:				
Enrollment fee collections	(29,094)	(94,594)	(65,500)	Finding 3
Enrollment fee waivers	(159,365)	(163,114)	(3,749)	Finding 3
Subtotal	1,386,402	907,858	(478,544)	
Less late filing penalty ²	(138,640)	(90,786)	47,854	
Total program costs	<u>\$ 1,247,762</u>	817,072	<u>\$ (430,690)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 817,072</u>		
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 786,020	\$ 608,914	\$ (177,106)	Finding 1
Indirect costs	267,797	116,546	(151,251)	Finding 2
Total direct and indirect costs	1,053,817	725,460	(328,357)	
Less offsetting reimbursements:				
Enrollment fee collections	(54,837)	(128,206)	(73,369)	Finding 3
Total enrollment fee collection costs	<u>\$ 998,980</u>	<u>\$ 597,254</u>	<u>\$ (401,726)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 274,931	\$ 369,143	\$ 94,212	Finding 1
Indirect costs	93,669	70,654	(23,015)	Finding 2
Total direct and indirect costs	368,600	439,797	71,197	
Less offsetting reimbursements:				
Enrollment fee waivers	(178,205)	(189,169)	(10,964)	Finding 3
Total enrollment fee waiver costs	<u>\$ 190,395</u>	<u>\$ 250,628</u>	<u>\$ 60,233</u>	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,060,951	\$ 978,057	\$ (82,894)	Finding 1
Indirect costs	361,466	187,200	(174,266)	Finding 2
Total direct and indirect costs	1,422,417	1,165,257	(257,160)	
Less offsetting reimbursements:				
Enrollment fee collections	(54,837)	(128,206)	(73,369)	Finding 3
Enrollment fee waivers	(178,205)	(189,169)	(10,964)	Finding 3
Subtotal	1,189,375	847,882	(341,493)	
Less late filing penalty ²	(118,937)	(84,788)	34,149	
Total program costs	<u>\$ 1,070,438</u>	763,094	<u>\$ (307,344)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 763,094</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 838,984	\$ 603,763	\$ (235,221)	Finding 1
Indirect costs	309,669	193,868	(115,801)	Finding 2
Total direct and indirect costs	1,148,653	797,631	(351,022)	
Less offsetting reimbursements:				
Enrollment fee collections	(74,711)	(191,384)	(116,673)	Finding 3
Total enrollment fee collection costs	\$ 1,073,942	606,247	\$ (467,695)	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 284,798	\$ 390,341	\$ 105,543	Finding 1
Indirect costs	105,119	125,338	20,219	Finding 2
Total direct and indirect costs	389,917	515,679	125,762	
Less offsetting reimbursements:				
Enrollment fee waivers	(249,227)	(218,571)	30,656	Finding 3
Total enrollment fee waiver costs	\$ 140,690	297,108	\$ 156,418	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,123,782	\$ 994,104	\$ (129,678)	Finding 1
Indirect costs	414,788	319,206	(95,582)	Finding 2
Total direct and indirect costs	1,538,570	1,313,310	(225,260)	
Less offsetting reimbursements:				
Enrollment fee collections	(74,711)	(191,384)	(116,673)	Finding 3
Enrollment fee waivers	(249,227)	(218,571)	30,656	
Subtotal	1,214,632	903,355	\$ (311,277)	
Less late filing penalty ²	(121,463)	(90,336)	31,127	
Total program costs	\$ 1,093,169	813,019	\$ (280,150)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 813,019		
<u>July 1, 2005, through June 30, 2006</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 915,955	\$ 654,741	\$ (261,214)	Finding 1
Indirect costs	313,715	218,880	(94,835)	Finding 2
Total direct and indirect costs	1,229,670	873,621	(356,049)	
Less offsetting reimbursements:				
Enrollment fee collections	(71,016)	(193,897)	(122,881)	Finding 3
Total enrollment fee collection costs	\$ 1,158,654	679,724	\$ (478,930)	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 290,530	\$ 395,961	\$ 105,431	Finding 1
Indirect costs	99,507	132,370	32,863	Finding 2
Total direct and indirect costs	390,037	528,331	138,294	
Less offsetting reimbursements:				
Enrollment fee waivers	(257,106)	(200,271)	56,835	Finding 3
Total enrollment fee waiver costs	\$ 132,931	\$ 328,060	\$ 195,129	

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006 (continued)</u>				
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,206,485	\$ 1,050,702	\$ (155,783)	Finding 1
Indirect costs	413,222	351,250	(61,972)	Finding 2
Total direct and indirect costs	1,619,707	1,401,952	(217,755)	
Less offsetting reimbursements:				
Enrollment fee collections	(71,016)	(193,897)	(122,881)	Finding 3
Enrollment fee waivers	(257,106)	(200,271)	56,835	
Subtotal	1,291,585	1,007,784	\$ (283,801)	
Less late filing penalty ³	(10,000)	(1,000)	9,000	
Total program costs	<u>\$ 1,281,585</u>	<u>1,006,784</u>	<u>\$ (274,801)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,006,784</u>		
<u>Summary: July 1, 1998, through June 30, 2006</u>				
<i>Enrollment Fee Collection</i>				
Direct costs:				
Salaries and benefits	\$ 6,623,634	\$ 4,796,098	\$ (1,827,536)	
Indirect costs	2,626,864	1,072,018	(1,554,846)	
Total direct and indirect costs	9,250,498	5,868,116	(3,382,382)	
Less offsetting reimbursements:				
Enrollment fee collections	(361,886)	(946,180)	(584,294)	
Total enrollment fee collection costs	<u>\$ 8,888,612</u>	<u>\$ 4,921,936</u>	<u>\$ (3,966,676)</u>	
<i>Enrollment Fee Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 1,886,948	\$ 2,215,105	\$ 328,157	
Indirect costs	738,559	522,900	(215,659)	
Total direct and indirect costs	2,625,507	2,738,005	112,498	
Less offsetting reimbursements:				
Enrollment fee waivers	(1,287,462)	(1,225,084)	62,378	
Total enrollment fee waiver costs	<u>\$ 1,338,045</u>	<u>\$ 1,512,921</u>	<u>\$ 174,876</u>	
<i>Enrollment Fee Collection and Waivers</i>				
Direct costs:				
Salaries and benefits	\$ 8,510,582	\$ 7,011,203	\$ (1,499,379)	
Indirect costs	3,365,423	1,594,918	(1,770,505)	
Total direct and indirect costs	11,876,005	8,606,121	(3,269,884)	
Less offsetting reimbursements:				
Enrollment fee collections	(361,886)	(946,180)	(584,294)	
Enrollment fee waivers	(1,287,462)	(1,225,084)	62,378	
Subtotal	10,226,657	6,434,857	\$ (3,791,800)	
Less late filing penalty	(903,506)	(543,709)	359,797	
Total program costs	<u>\$ 9,323,151</u>	<u>5,891,148</u>	<u>\$ (3,432,003)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,891,148</u>		

Revised Schedule 1 (continued)

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¹ See the Findings and Recommendations section.

² Government Code section 17561, subdivision (d)(3), allows claimants to file an initial reimbursement claim within one year after the initial filing deadline, subject to a 10% penalty on allowable costs for filing a late claim. Initial reimbursement claims filed after September 30, 2002, were not subject to a maximum penalty. The SCO assesses the penalty on allowable costs that exceed the amount claimed by the initial filing deadline. FY 1998-99, through FY 2004-05 claims were initial reimbursement claims filed after the initial filing deadline and after September 30, 2002.

³ Government Code section 17568 limited the 10% penalty for filing a late annual reimbursement claim prior to August 24, 2007, to a maximum of \$1,000. The district filed its FY 2005-06 annual reimbursement claim on June 28, 2007.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$8,510,582 in salaries and benefits for the audit period. We determined that \$1,499,379 is unallowable as follows:

	Enrollment Fee Collection Costs	Enrollment Fee Waiver Costs	Audit Adjustment
One-time activities:			
Preparing district policies and procedures	\$ (391,467)	\$ (147,614)	\$ (539,081)
Staff training—once per employee	(13,501)	(37,503)	(51,004)
Ongoing activities:			
Adopting procedures, recording, and maintaining records	—	(53,070)	(53,070)
Errors in application of time allowances	(1,422,568)	566,344	(856,224)
Total	<u>\$ (1,827,536)</u>	<u>\$ 328,157</u>	<u>\$(1,499,379)</u>

The district claimed costs for the one-time activities and ongoing activities of adopting procedures, recording, and maintaining records based on annual consultant's forms that estimated the annual time spent by employees for the eight years in the audit period. The forms were completed by the employees between April 25, 2006, and May 4, 2006.

Unallowable One-Time Activities

For the one-time activity of preparing district policies and procedures, the district claimed \$429,663 for fee collection costs and \$174,106 for fee waiver costs. We allowed costs in the first fiscal year (FY) claimed totaling \$38,196 (FY 1998-99) for fee collection costs, and \$26,492 for FY 1999-2000 in fee waiver costs. We did not allow time spent by admissions and records staff totaling \$13,426 in FY 1998-99 for fee collection costs or \$27 in FY 1999-2000 for fee waiver costs. District staff indicated that these employees were not involved in this reimbursable activity. For the remaining years (FY 1999-2000 through FY 2005-06 for enrollment fee collection costs, and FY 2000-01 through FY 2005-06 for enrollment fee waiver costs), the district did not provide documentation that the costs related to preparing district policies and procedures.

For the one-time activity of staff training (once per employee), the district claimed \$15,288 for fee collection costs and \$40,683 for fee waiver costs. We allowed costs in the first year employees were claimed, totaling \$1,787 for fee collection costs and \$3,180 for fee waiver costs. The district did not provide documentation related to the nature of the training or whether any of the remaining costs related to trainers' time.

The following table summarizes the ineligible salaries and benefits for one-time activities related to fee collection costs:

Fiscal Year	Enrollment Fee Collection Costs		
	Preparing District Policies and Procedures	Staff Training	Audit Adjustment
1998-99	\$ (13,426)	\$ (1,044)	\$ (14,470)
1999-2000	(56,323)	(1,319)	(57,642)
2000-01	(55,331)	(1,478)	(56,809)
2001-02	(73,014)	(1,575)	(74,589)
2002-03	(47,105)	(1,407)	(48,512)
2003-04	(45,246)	(1,667)	(46,913)
2004-05	(53,449)	(2,064)	(55,513)
2005-06	(47,573)	(2,947)	(50,520)
Total	<u>\$ (391,467)</u>	<u>\$ (13,501)</u>	<u>\$ (404,968)</u>

The following table summarizes the ineligible salaries and benefits for one-time activities related to fee waiver costs:

Fiscal Year	Enrollment Fee Waiver Costs		
	Preparing District Policies and Procedures	Staff Training (Once Per Employee)	Audit Adjustment
1999-2000	\$ (27)	\$ (2,925)	\$ (2,952)
2000-01	(17,834)	(4,881)	(22,715)
2001-02	(23,830)	(5,147)	(28,977)
2002-03	(18,625)	(4,448)	(23,073)
2003-04	(18,207)	(4,448)	(22,655)
2004-05	(28,028)	(7,029)	(35,057)
2005-06	(41,063)	(8,625)	(49,688)
Total	<u>\$ (147,614)</u>	<u>\$ (37,503)</u>	<u>\$ (185,117)</u>

Unallowable Costs Related to Adopting Procedures, Recording, and Maintaining Records

The district claimed \$363,406 in costs related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. We determined that \$53,070 claimed for time spent by admissions and records staff members for this activity was unallowable. District staff indicated that these employees were not involved in this reimbursable activity.

The following table summarizes the unallowable salaries and benefits related to adopting procedures, recording, and maintaining records related to enrollment fee waiver costs:

Fiscal Year	Preparing District Policies and Procedures
1999-2000	\$ (3,933)
2000-01	(7,037)
2001-02	(6,188)
2002-03	(6,333)
2003-04	(6,470)
2004-05	(9,421)
2005-06	(13,688)
Total	<u>\$ (53,070)</u>

Errors in Application of Time Allowances for Ongoing Activities

The district claimed salaries and benefits for 12 activities using time allowances developed from estimated time staff took to complete various activities. On survey forms developed by the district's mandate consultant, employees estimated, for each fiscal year, the average time in minutes it took them to perform the 12 activities per student per year. In applying the time allowances, the district did not report the correct number of students related to the various cost components. We recalculated reimbursable activities using the correct number of students and determined that the district overstated salaries and benefits by \$856,224—\$1,422,568 in overstated enrollment fee collection costs and \$566,344 in understated enrollment fee waiver costs.

Enrollment Fee Collection Costs

For enrollment fee collection costs, the district claimed costs related to: (1) referencing student accounts and printing a list of enrolled courses; (2) calculating the fees, processing the payment, and preparing a payment receipt; (3) answering student questions or referring them to the appropriate person for an answer; (4) updating student records for the enrollment fee information, providing a copy to the student, and copying/filing enrollment fee documentation; (5) collecting delinquent fees; and (6) processing fee refunds for students who establish fee waiver eligibility and updating student and district records as required. The district determined reimbursable costs by applying a multiplier to the time allowances it determined through a time study.

For activities (1) and (3), the district used total enrolled students as the multiplier. For activities (2) and (4), the district used the number of students paying the enrollment fee as the multiplier. The district determined the number of enrolled students based on information reported by the district in its Annual Fee Report (BFAP)—By Fee Type, run on June 25, 2009. The district did not deduct ineligible non-resident and special admit students (students who attend a community college while in high school, pursuant to Education Code section 76001).

We updated the district's calculation based on student enrollment information it reported to the California Community Colleges Chancellor's Office (CCCCO) for total enrollment less non-resident students. We also updated the district's calculation by deducting special admission students the district supported on its accounting records. Based on reimbursable student enrollment information, we determined that of the \$6,178,679 claimed, \$1,356,479 was overstated because of calculation errors for activities (1) through (4). The calculation errors occurred for the following reasons:

- For activities (1) and (3), the district claimed costs for student enrollment that did not agree with the enrollment numbers documented by the CCCCCO. The CCCCCO's management information system (MIS) identifies enrollment information based on student data that the district reported. The CCCCCO identifies the district's

enrollment based on the CCCCCO's MIS data element STD 7, codes A through G. The CCCCCO eliminates any duplicate students by term based on their Social Security numbers.

- For activities (2) and (4), the district claimed costs based on enrollment and Board of Governors Grant (BOGG) recipient numbers that did not agree with the numbers documented by the CCCCCO. We calculated the number of reimbursable students paying the fees by deducting Board of Governors Grant (BOGG) recipients from reimbursable student enrollments confirmed by the CCCCCO. The CCCCCO identifies the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of 'B' or 'F'.
- For activity (5), the district claimed delinquent fee collection costs using a number for delinquent fees that did not agree with the district's Annual Fee Report. Based on an updated student count, the district overstated costs by \$70,158.
- For activity (6), the district claimed costs based on a total for students who received a refund that did not agree with the district's Annual Fee Report. Based on an updated student count, the district understated costs by \$4,069.

We recalculated reimbursable ongoing enrollment fee collection costs for activities (1) through (6) and determined that the district overstated allowable costs by \$1,422,568.

The following table summarizes the unallowable salaries and benefits for ongoing enrollment fee collection costs:

Fiscal Year	Allowable Salaries and Benefits	Claimed Salaries and Benefits	Audit Adjustment
1998-99	\$ 409,981	\$ 646,264	\$ (236,283)
1999-2000	485,641	719,309	(233,668)
2000-01	660,493	794,160	(133,667)
2001-02	701,396	811,148	(109,752)
2002-03	632,061	820,664	(188,603)
2003-04	608,377	738,570	(130,193)
2004-05	603,425	783,133	(179,708)
2005-06	654,741	865,435	(210,694)
Total	<u>\$ 4,756,115</u>	<u>\$ 6,178,683</u>	<u>\$ (1,422,568)</u>

Enrollment Fee Waiver Costs

For enrollment fee waiver costs, the district claimed costs related to: (7) answering student questions or referring them to the appropriate person for an answer; (8) receiving waiver applications; (9) evaluating waiver applications; (10) providing notice to a student that additional documents were needed; (11) inputting approved applications; and (12) reviewing and evaluating additional information and documentation for denied applications if appealed, and providing students written notifications of the appeal results or any change in eligibility status.

For activity (11), the district used the number of approved BOGG waiver recipients on the CCCCCO's website. The website excludes MIS data elements with the first letter of 'F' and includes unduplicated recipients by school year rather than by term. We used the number of BOGG waiver recipient confirmed directly with the CCCCCO. The CCCCCO identifies the unduplicated number of BOGG waiver recipients by term based on MIS data element SF21 and all codes with the first letter of 'B' or 'F'.

For activities (10) and (12), the district used the number of denied appeals. We did not adjust the numbers used by the district for these activities.

For activities (7) through (9), the district used the number of approved BOGG waiver recipients on the CCCCCO's website plus the number of denied applications. We used the number of BOGG waiver recipients confirmed by the CCCCCO plus the number of denied applications reported by the district.

We recalculated reimbursable ongoing enrollment fee waiver costs for activities (7) through (9), and (11), and determined that the district understated allowable costs by \$566,344.

The following table summarizes the unallowable salaries and benefits for ongoing enrollment fee waiver costs:

<u>Fiscal Year</u>	<u>Allowable Salaries and Benefits</u>	<u>Claimed Salaries and Benefits</u>	<u>Audit Adjustment</u>
1999-2000	\$ 144,427	\$ 144,929	\$ (502)
2000-01	157,986	158,313	(327)
2001-02	176,871	177,631	(760)
2002-03	315,231	189,463	125,768
2003-04	324,828	201,491	123,337
2004-05	334,394	184,373	150,021
2005-06	332,706	163,899	168,807
Total	<u>\$ 1,786,443</u>	<u>\$ 1,220,099</u>	<u>\$ 566,344</u>

Education Code section 76300 authorizes community college districts to calculate and collect student enrollment fees and to waive student fees in certain instances. The statute directs districts to report the number of, and amounts provided for, BOGGs and to adopt procedures that will document all financial assistance provided on behalf of students.

The program's parameters and guidelines (section IV–Reimbursable Activities) state "... actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question."

The parameters and guidelines also state that salaries and benefits are reimbursable if claimants report each employee implementing the reimbursable activities by name, job classification, productive hourly rate, and provide a description of the specific reimbursable activities performed and the hours devoted to these activities.

The parameters and guidelines state that the preparation of policies and procedures is reimbursable as a one-time activity for collection of enrollment fees and for determining which students are eligible for waiver of the enrollment fees. The CSM Final Staff Analysis and Proposed Parameters and Guidelines dated January 13, 2006, for the one-time activity of adopting policies and procedures, states “. . . staff finds that updates to the policies and procedures would be subject to change in the community college district’s policy rather than state law, and would not be reimbursable.”

The parameters and guidelines also state that staff training is reimbursable as a one-time cost per employee for training district staff who implement the program based on the procedures for the collection of enrollment fees and for determining which students are eligible for waiver of the enrollment fee. Consistent with the Final Staff Analysis for policies and procedures, training for changes in the community college district's policy is not reimbursable.

Recommendation

We recommend that the district maintain records that document actual time spent on mandate-related activities. In addition, we recommend that the district maintain documentation that identifies the number of students excluded, as required by Education Code section 76300.

District’s Response

At the current time the District does not have a response to the audit that has been presented.

**FINDING 2—
Overstated indirect
costs**

The district claimed \$1,770,505 in unallowable indirect costs for the audit period. The adjustment consists of \$1,554,846 related to fee collection and \$215,659 related to fee waivers.

The district prepared its Indirect Cost Rate Proposal (ICRP) using the SCO's Form FAM-29C methodology. However, the district did not correctly compute the FAM-29C rate. It did not allocate direct and indirect costs as specified in the claiming instructions. In addition, the district used expenditures from the prior year's CCSF-311 to prepare the current year's indirect cost rates in each of the eight fiscal years.

The district indicated that it used the most current data available to prepare its ICRPs. However, state regulations require every college district to complete and file the financial statements on the California Community Colleges Annual Financial and Budget Report Expenditures Activity form (CCFS-311) on or before October 15, and to file the annual audit report on or before December 31 following the end of the fiscal year. The mandate cost claims for the audit period were filed June 15, 2007. Therefore, current data was available each year prior to when the district filed its mandate claims.

We calculated the allowable indirect cost rates for each fiscal year by using the current information contained in Form CCFS-311.

The following table summarizes the unallowable indirect cost rates:

<u>Fiscal Year</u>	<u>Allowable Indirect Cost Rate</u>	<u>Claimed Indirect Cost Rate</u>	<u>Overstated Rate</u>
1998-99	19.50%	43.56%	(24.06)%
1999-2000	18.65%	45.96%	(27.31)%
2000-01	17.57%	41.72%	(24.15)%
2001-02	18.98%	42.07%	(23.09)%
2002-03	18.26%	39.82%	(21.56)%
2003-04	19.14%	34.07%	(14.93)%
2004-05	32.11%	36.91%	(4.80)%
2005-06	33.43%	34.25%	(0.82)%

The following table summarizes the unallowable indirect costs for fee collection direct costs:

<u>Enrollment Fee Collection</u>					
<u>Fiscal Year</u>	<u>Allowable Costs</u>	<u>Allowable Indirect Cost Rate</u>	<u>Allowable Indirect Costs</u>	<u>Claimed Indirect Costs</u>	<u>Audit Adjustment</u>
1998-99	\$ 448,474	19.50%	\$ 87,452	\$ 304,583	\$ (217,131)
1999-2000	485,728	18.65%	90,588	357,127	(266,539)
2000-01	660,624	17.57%	116,072	355,079	(239,007)
2001-02	701,396	18.98%	133,125	372,630	(239,505)
2002-03	632,458	18.26%	115,487	346,264	(230,777)
2003-04	608,914	19.14%	116,546	267,797	(151,251)
2004-05	603,763	32.11%	193,868	309,669	(115,801)
2005-06	654,741	33.43%	218,880	313,715	(94,835)
Total	<u>\$ 4,796,098</u>		<u>\$ 1,072,018</u>	<u>\$ 2,626,864</u>	<u>\$(1,554,846)</u>

The following table summarizes the unallowable indirect costs for fee waiver direct costs:

Fiscal Year	Enrollment Fee Waivers				
	Allowable Costs	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
1999-2000	\$ 270,118	18.65%	\$ 50,377	\$ 127,541	\$ (77,164)
2000-01	223,519	17.57%	39,272	105,801	(66,529)
2001-02	212,885	18.98%	40,406	104,674	(64,268)
2002-03	353,138	18.26%	64,483	102,248	(37,765)
2003-04	369,143	19.14%	70,654	93,669	(23,015)
2004-05	390,341	32.11%	125,338	105,119	20,219
2005-06	395,961	33.43%	132,370	99,507	32,863
Total	<u>\$ 2,215,105</u>		<u>\$ 522,900</u>	<u>\$ 738,559</u>	<u>\$ (215,659)</u>

The parameters and guidelines state, "Community colleges have the option of using: (1) a federally approved rate, utilizing the cost accounting principles from the Office of Management and Budget Circular A-21, Cost Principles of Educational Institutions; (2) the rate calculated on State Controller's Form FAM-29C; or (3) a 7% indirect cost rate."

The district did not have a federally approved rate for the audit period.

Recommendation

We recommend that the district claim indirect costs based on an indirect cost rate allowed by the parameters and guidelines.

District's Response

At the current time the District does not have a response to the audit that has been presented.

**FINDING 3—
Understated offsetting
savings/reimbursements**

The district understated offsetting savings/reimbursements by \$521,916 for the audit period, consisting of \$584,294 in understated fee collection costs and \$62,378 in overstated fee waiver costs. The misstatements occurred because the district did not accurately report the amount received for enrollment fee collection and the amount waived for enrollment fee waivers.

We calculated allowable offsetting savings/reimbursements for all years under audit using instructions contained in the parameters and guidelines. Our calculations were based on enrollment fee collection and BOGG fee waivers information provided by the CCCCCO.

The following table summarizes the understated fee collection and overstated fee waiver portion of offsetting savings/reimbursements:

Fiscal Year	Enrollment Fee Collection			Enrollment Fee Waivers		
	Claimed	Allowable	Audit Adjustment	Claimed	Allowable	Audit Adjustment
1998-99	\$ 34,240	\$ 89,121	\$ (54,881)	\$ —	\$ —	\$ —
1999-2000	37,495	61,914	(24,419)	126,883	146,120	(19,237)
2000-01	33,261	91,580	(58,319)	154,060	154,832	(772)
2001-02	27,232	95,484	(68,252)	162,616	153,007	9,609
2002-03	29,094	94,594	(65,500)	159,365	163,114	(3,749)
2003-04	54,837	128,206	(73,369)	178,205	189,169	(10,964)
2004-05	74,711	191,384	(116,673)	249,227	218,571	30,656
2005-06	71,016	193,897	(122,881)	257,106	200,271	56,835
Total	<u>\$ 361,886</u>	<u>\$ 946,180</u>	<u>\$ (584,294)</u>	<u>\$ 1,287,462</u>	<u>\$ 1,225,084</u>	<u>\$ 62,378</u>

The parameters and guidelines for the program require claimants to report the following offsetting savings/reimbursements:

- Enrollment Fee Collection Program funds: 2% of the revenue from enrollment fees pursuant to Education Code section 76000, subdivision (c); and
- Enrollment Fee Waiver Program funds: Allocation to community colleges by the Community College Board of Governors from funds in the annual budget act pursuant to Government Code section 76300, subdivisions (g) and (h) as follows:
 - For July 1, 1999, to July 4, 2000, 2% of the fees waived and 7% of the fees waivers.
 - Beginning July 5, 2000, 2% of the fees waived and \$0.91 per credit unit waived.

Furthermore, the parameters and guidelines state, “Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate from any source, including but not limited to, services fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.”

Recommendation

We recommend that the district report all enrollment fee collection and waiver offsetting reimbursements on its mandated cost claims.

District's Response

At the current time the District does not have a response to the audit that has been presented.

**Attachment—
District's Response to
Draft Audit Report**



April 27, 2011

Jim L. Spano, Chief
Mandated Cost Audits Bureau
Division of Audits
California State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano,

Thank you very much for you and your staff's professional demeanor and courtesy during this audit.

At the current time the District does not have a response to the audit that has been presented.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. Isomoto". The signature is fluid and cursive, with a large loop at the end.

Robert G. Isomoto
Vice President, Business/Administration
Santa Monica College

**State Controller's Office
Division of Audits
Post Office Box 942850
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<http://www.sco.ca.gov>